

Message Text

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73

ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-03 FRB-01

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-01 OPIC-02 SP-02

CIEP-01 LAB-01 SIL-01 OMB-01 DODE-00 PM-03 H-01 L-02

NSC-07 PA-01 PRS-01 SS-14 USIA-04 DRC-01 /074 W

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P 102150Z OCT 74

FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC PRIORITY 8433

C O N F I D E N T I A L BUENOS AIRES 7575

E. O. 11652: GDS

TAGS: EINV, AR, US

SUBJECT: SITUATION OF AMERICAN COMPANIES IN ARGENTINA

REFS: A. BA 7404 B. STATE 213236

1. ON OCT 8, AMBASSADOR HILL, ACCOMPANIED BY ECOM COUNSELOR AND COMATT, CALLED ON ERNESTO PAENZA, SECRETARY OF INDUSTRY AND ACTING SECRETARY OF XOMMERCE. AMBASSADOR HILL TOLD PAENZA THAT DURING PAST FEW WEEKS AN INCREASING NUMBER OF US BUSINESS FIRMS IN ARGENTINA HAD EXPRESSED GRAVE CONCERN OVER PROBLEMS THEY ARE FACING IN ARGENTINA. AT THE SAME TIME, THEIR HEAD OFFICES IN THE US HAVE EXPRESSED THE SAME CONCERN TO THE DEPARTMENT OF STATE. THE AMBASSADOR TOLD PAENZA HOW MUCH HE PERSONALLY AND USG VALUE OUR GOOD RELATIONS WITH ARGENTINA AND TOLD HIM THAT WE WOULD NOT WANT TO SEE THESE RELATIONS PERTURBED BY PROBLEMS WHICH COULD BE AVOIDED. HE ADDED THAT IT WOULD BE ESPECIALLY DAMAGING IF, IN THIS PERIOD WHEN BOTH COUNTRIES ARE WORKING TO HAVE A SUCCESSFUL MEETING OF FOREIGN MINISTERS IN B.A. NEXT MARCH, ONE OR MORE AMERICAN COMPANIES IN ARGENTINA WERE FORCED INTO BANKRUPTCY OR SIMILAR STATUS.

2. PAENZA REACTED TO THESE REPRESENTATIONS IN A CORDIAL
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AND POSITIVE MANNER. HE EXPLAINED THAT, WHEN PERONIST

GOVERNMENT CAME TO POWER IN MAY, QUOTE IT HAD DECIDED ON SHOCK TREATMENT RE PRICES. HE SAID THIS WAS DUE, LARGELY, TO FACT THAT MANY COMPANIES HAD RAISED PRICES IN ANTICIPATION OF CONTINUATION OF RATE OF INFLATION PREVAILING PRIOR TO NEW GOVERNMENT'S TAKING OFFICE. THIS, HE SAID, NECESITATED NOT ONLY FREEZING BUT ROLLBACK OF PRICES. HE ADMITTED THAT GOVERNMENT WAS CONSIDERABLY BEHIND IT ITS POLICY OF PERMITTING PRICE INCREASES SUFFICIENT TO BRING ALL COMPANIES UP TO BREAK-EVEN POINT, AND SUBSEQUENTLY PRICE INCREASES WHICH WOULD PERMIT REASONABLE LEVEL OF PROFITABILITY. HOWEVER, HE SAID THE IMPORTANT THING WAS THE FACT THAT THE TREND WAS IN THE DIRECTION OF GREATER FLEXIBILITY RE PRICE INCREASES, ESPECIALLY IN CASES OF COMPANIES DEEPLY IN THE RED. HE REPEATED SEVERAL TIMES THAT POLICY APPLIED EQUALLY TO ALL COMPANIES AND NOT JUST FOREIGN-OWNED ONES. HE SAID HE HAD SET DEADLINE OF 60-90 DAYS FOR ALL COMPANIES' COMPLAINTS RE PRICE POLICY TO BE ACTED UPON.

3. AMBASSADOR HILL SAID HE WAS VERY ENCOURAGED TO HEAR THIS EXPLANATION BY THE SECRETARY BUT EMPHASIZED THAT SOME COMPANIES WERE IN SUCH DESPERATE STRAITS THAT THEY COULD WELL BE IN BANKRUPTCY BEFORE 60 DAYS HAD ELAPSED. AS AN EXAMPLE, CITED GENERAL MOTORS ARGENTINA, WHOSE REGIONAL VICE PRESIDENT HAD JUST CALLED ON HIM THAT SAME MORNING (SEE SEPTTEL), AND WHO HAD SAID GMA COULD NOT PAY ITS CURRENT DEBTS TO SUPPLIERS AND DID NOT KNOW HOW IT WOULD BE ABLE TO MEET NEXT PAYROLL ON OCTOBER 20 BECAUSE OF GOVERNMENT PRICE POLICY PLUS ENFORCED WAGE INCREASES.

4. SECRETARY PAENZA ASSURED AMBASSADOR HIS DOOR IS OPEN TO DISCUSS ALL KINDS OF PROBLEMS AND AGAIN STRESSED THAT GOA RECOGNIZES THAT NO FIRM CAN FUNCTION FOR LONG PERIOD AT A LOSS.

5. COMMENT: ALTHOUGH WE WERE FAVORABLY IMPRESSED BY PAENZA'S FORTHRIGHTNESS AND APPARENT SINCERITY, WE HAVE HEARD FROM US BUSINESS SOURCES HERE THAT HIS PERFORMANCE DOES NOT LIVE UP TO THE GOOD IMPRESSION HE CREATES. ONE HEAD OF LARGE US BUSINESS FIRM HERE DESCRIBED HIM AS "...A FAKE AND A CHARLATAN." NEVERTHELESS, WE HOPE THIS
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VISIT, TOGETHER WITH OTHER CONVERSATIONS ALREADY HELD AND THOSE PLANNED FOR NEXT FEW DAYS, MAY HELP ALLEVIATE SITUATION FOR AMERICAN-OWNED COMPANIES IN TROUBLE. WE WILL CONTINUE TO FOLLOW THE SITUATION VERY CLOSELY.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, FOREIGN INVESTMENTS, BUSINESS FIRMS, INDUSTRIAL CONTROLS, BUSINESS LOSSES
Control Number: n/a
Copy: SINGLE
Draft Date: 10 OCT 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: elyme
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974BUENOS07575
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740288-1062
From: BUENOS AIRES
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741057/aaaabwpw.tel
Line Count: 112
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: A. BA 7404 B. STATE 213236
Review Action: RELEASED, APPROVED
Review Authority: elyme
Review Comment: n/a
Review Content Flags:
Review Date: 05 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <05 SEP 2002 by boyleja>; APPROVED <05 MAR 2003 by elyme>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SITUATION OF AMERICAN COMPANIES IN ARGENTINA
TAGS: EINV, AR, US
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005